RBC Private U.S. Large-Cap Core Equity Pool

Commentary as at December 31, 2021

U.S. stocks performed best among the world's major equity markets in 2021, driven by historically low interest rates, pandemic-linked government income payments and a surge in corporate profits. Equities reached record levels in early September, lifting the index to more than double the lows of March 2020, when the spread of COVID-19 brought the economy to a standstill. Rising bond yields tied to inflation concerns and questions about the sustainability of economic growth tempered investors' enthusiasm toward the end of the year. The S&P 500 Index, the most widely watched U.S. equity benchmark, was led by economically sensitive sectors, such as Energy, Real Estate, Financials and Information Technology.

The largest contributions to relative performance came from an underweight in the Materials sector, and security selection in Real Estate and Energy. Simon Property Group was a top contributor. The owner of shopping malls performed exceptionally well as retailers resumed offering in-person shopping in 2021, boosting revenues to pre-pandemic levels. Given the strength in oil prices, the Fund's overweight position in Devon Energy also boosted relative returns.

Performance was held back by security selection in the Consumer Discretionary sector. An underweight position in Tesla, the maker of electric cars, held back performance as the shares continued to surge in 2021.Security selection in the Information Technology also hurt performance. An overweight allocation to Global Payments had a negative impact as the shares tumbled on concern that revenue would fall short of expectations in the coming year.

Momentum in the economic recovery appears to have peaked, as challenges mount and the stimulus that has been in place since the early days of the pandemic starts to fade. Nevertheless, the portfolio manager believes the economy will continue to grow at a sufficient pace to maintain strong corporate-profit growth, which is becoming increasingly critical for equity markets given elevated stock valuations. There are, however, a number of risks that could increase volatility over the next 12 months, including the direction of the Omicron variant, supply-chain bottlenecks, inflation and rising interest rates.